Navy 2004 Logistics Conference
Logistics Transformation at DoD

Mr. Brad Berkson
Acting Deputy Under Secretary of Defense (L&MR)
May 18, 2004

DoD would be like Wal-Mart . . .

. . . if Wal-Mart's 3000+ stores move

. . . if a Wal-Mart stockout meant that everyone inside the store could die.

. . . if Customers had to wear a different kind of

. . . if associates had to wear a different kind of

2001 QDR Direction

- **Project and sustain the force with minimal footprint**
- **Implement performance-based logistics to improve readiness for major weapon systems and availability of commodities**
- **Reduce cycle times to industry standards**

Opening Observations

- We have many supply chains to manage
  - Commercial Commodities (food, fuel, pharma, clothing)
  - Weapon Systems
  - Deployed Land Forces
- Each has different characteristics and requirements . . .
- Need to be tailored to optimize performance . . .
- Consist of multiple chains where the actual tailoring has to take place
- DoD's scale, complexity, and coordination needed, provide challenges to fundamental improvements

Joint Logistics Board Priorities

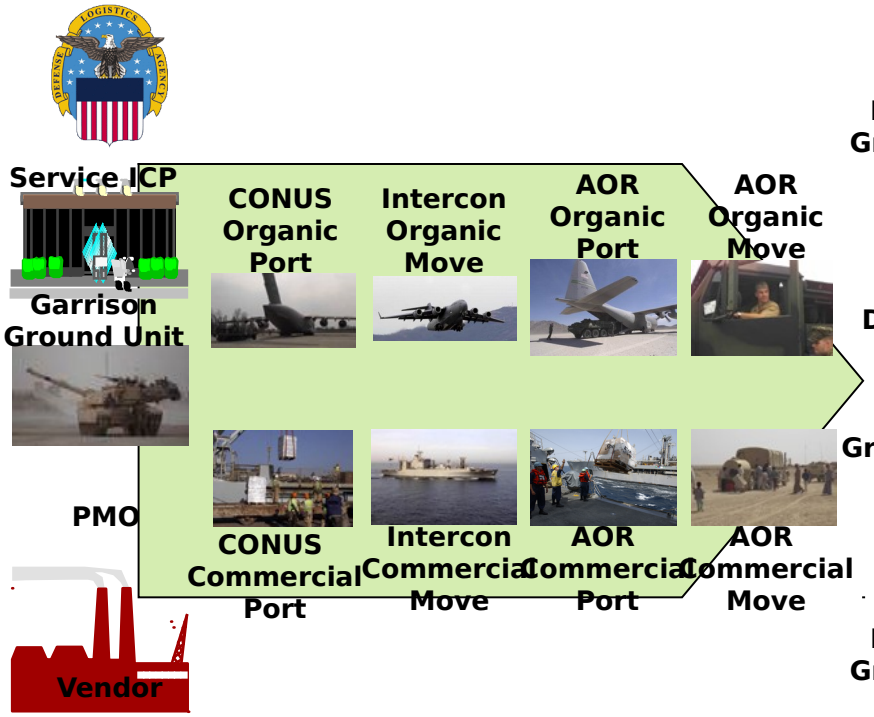
Deployed Forces	• Support current operations • Ensure success of the DPO
Commercial commodity flows	• Streamline material flows • Explore and implement Customer Pay opportunities
Weapons Systems	• Accelerate Performance-Based Logistics (PBL) • Develop a way ahead for achieving maintenance excellence (e.g., Lean)
Infrastructure	• Implement a balanced scorecard and performance metrics • Ensure Logistics Enterprise Integration efforts are coordinated and interoperable

Memo to Acting Under Secretary of Defense (AT&L)
February 10, 2004

Comparison Matrix

Chain	Commercial Equivalent	Inventory	Key Data	Flow
Commercial commodities	• Sears • Wal-Mart • True-Value	• $12 B • Fast moving • Lower value	• Shelf demand • ITV	• High • Continuous • One way
Major System • End items • Repairables	• GE turbine • Caterpillar dealer • IBM mainframe	• $66 B • Slower moving • Higher value • Readiness critical	• Shelf demand • ITV • UID	• Lower • System dependent • Bi-directional
Deployed Forces	• **NO direct** • Process industry indirectly	• $??? • DoD	• Sequence • ITV • Real-time system status	• Enormous • Intermittent • Multi-Directional

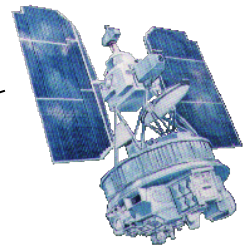
"Major Land Force Deployment"



- Use to close and sustain major ground forces into AOR
- Metric: Time to close forces
- Transformation example: RFID ITV*
- Leverage point: Improve trust in flow capability to allow smaller footprint in theater

* RFID tags being seized and reprogrammed by in country forces – need more!

Deployment/Distribution Operations Center-Forward (DDOC-FWD) Pilot



Unity of Effort
Joint Effects

DDOC - FWD

TACON TO COCOM

- Air ***(CJ4)***
- Land
- Sea
- Sustainment

DDOC-FWD Mission Statement:

- ***executes CENTCOM deployment and distribution priorities***
- ***validates/directs mode selection of intra-theater with CFLCC, CFACC & CFMCC***
- ***adjudicates identified CENTCOM distribution and intra-theater shortfalls***
- ***coordinates for additional USTRANSCOM support***
- ***provides TAV and ITV for inter and intra-theater forces and materiel***
- ***synchronizes effective theater retrograde***

The missing Theater link until now...

DDOC-FWD Pilot Immediate Impact – 1st Month

- **Synchronized strategic air/sea & intra-theater lift: Increased throughput**
- **Improved readiness by diverting theater assets (track & DLRs)**
- **Improved customer confidence – collaborative theater environment**
- **Improved quality and availability of enterprise information**
- **Reduced operational costs with improved ITV & TAV (19 containers of track located & re-directed; over one hundred Class IX containers diverted)**
- **Accelerated 101st AA div redeployment by weeks**
- **Accelerated retrograde of DLRs by 900%**
- **Improved strategic delivery of critical materiel directly to forward units (pure pallets to forward warehouses)**

Why RFID now?

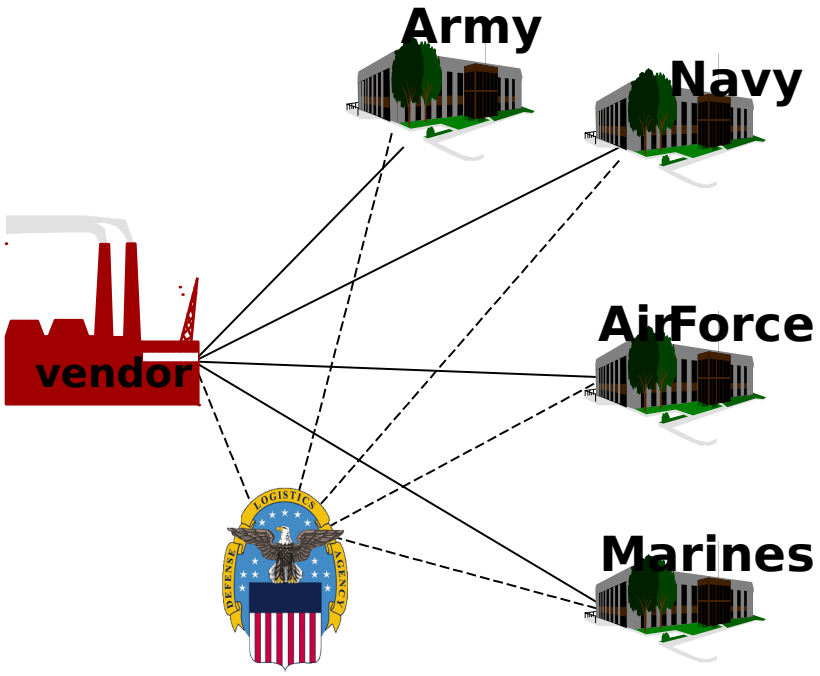
- **Improve business processes now**
- **Drive the direction and cost of technology development**
- **Drive the standards to work for us**
- **Facilitate the implementation of Unique Identification (U**

Set the foundation for future supply chain improvements… TODAY!

Passive RFID Requirements

- **Tagged cases and pallets shipped to DoD receiving points beginning Jan 2005**
- **Tagged packaging for items that require a Unique Identification (UID) shipped to DoD receiving points beginning Jan 2005**
- **Pilots will help determine pace of expansion**
- **Tags will be EPC-compliant**
  - **Initial Implementations: currently available Class 0 and Class 1, V1 EPC tags**
  - **When available: Class 1, Generation 2 EPC tags**

"Commercial Commodity"

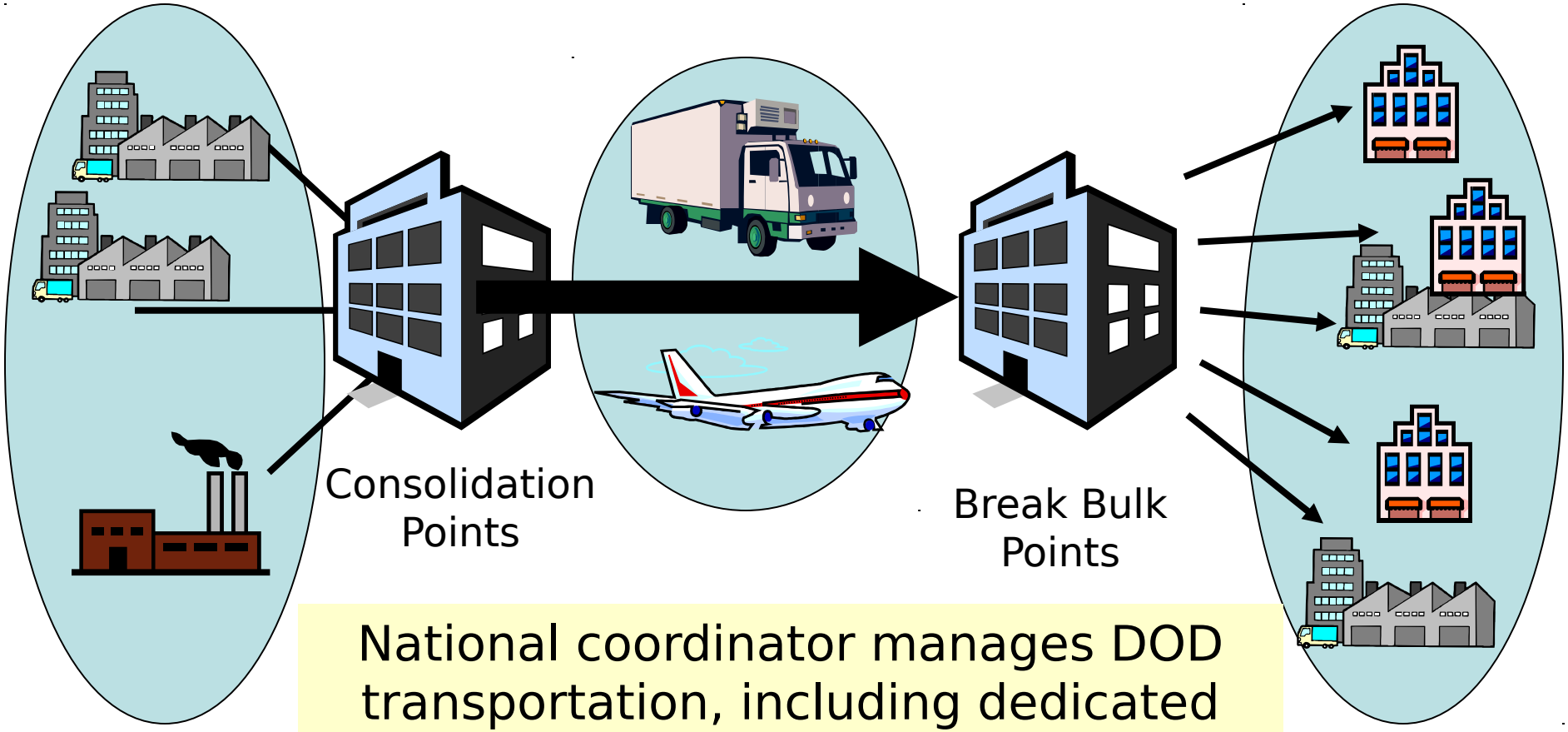


- Use to flow "consumer goods" (e.g., food, fuel, clothing) to ground forces in garrison, sea and air forces, and depots
- Metrics: Availability, customer wait time, inventory turns, log cost % sales
- Transformation example: Prime Vendor contracts for fuel, pharma, and bin stock at Depots
- Leverage point: Consolidate inventory upstream, vendor direct delivery of goods to shelf

Current State: Background

- Thousands of DoD CONUS locations initiate freight movements using commercial freight carriers with thousands of destinations.
- Dozens of DoD receiving, storage, and shipment activities across the United States consume personnel, funding, inventory and time.
- Multiple systems are employed to execute and manage shipment activity and operations
  - there is no centralized planning or control
  - systems require stronger linkage and significant resources to operate
- Over the last fifteen years, organizations and processes have been aggregated and consolidated without the benefit of a holistic analysis which leverages today's IT processes, commercial capabilities, and proven best practices.

Defense Transportation Coordination Initiative (DTCI)



National coordinator manages DOD transportation, including dedicated truck service to leverage “best practices”

Regional Shipping

Regional Receiving Cluster

Regional Inventory & Material Management Project

A pilot program designed to optimize inventory, reduce material handling and reduce customer wait time through streamlining delivery of parts to end users.

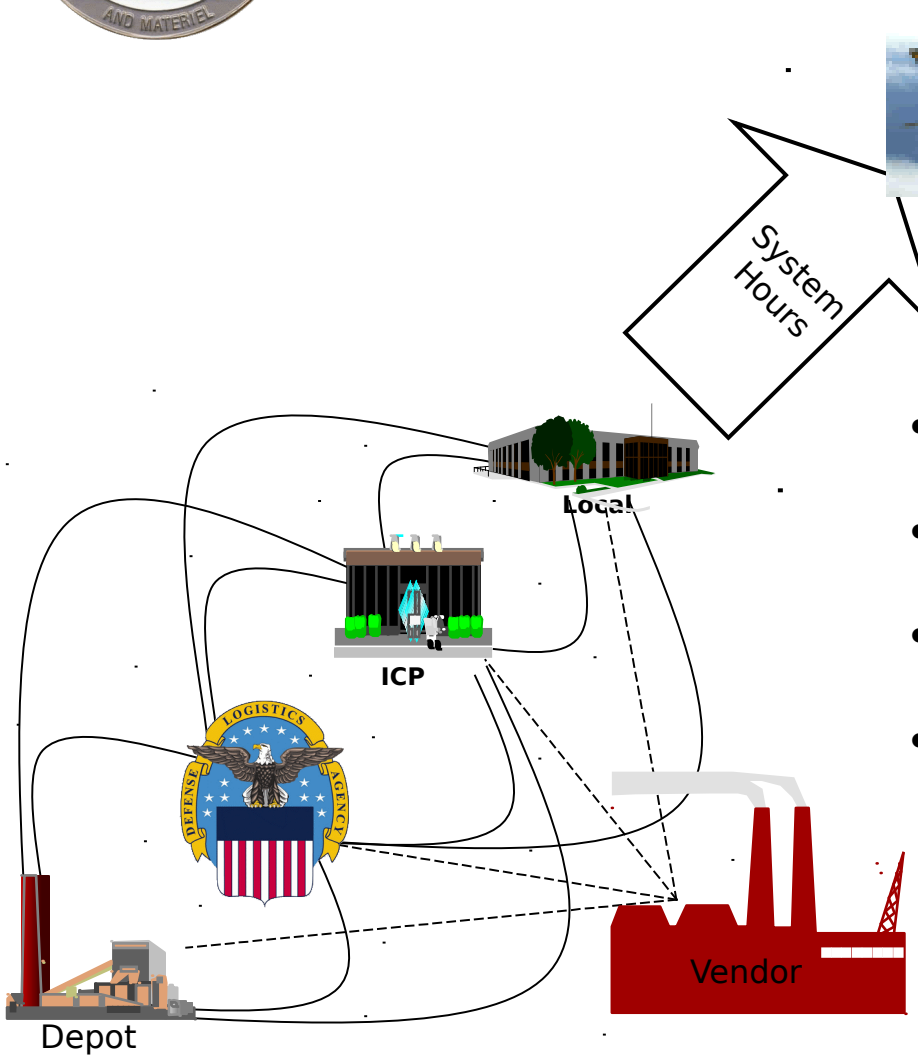
The pilot will ultimately seek to deliver the same or better mission capability at lower cost.

Improved repair cycle time on DLRs can potentially reduce spare requirements, resulting in inventory optimization and cost savings.

Pilot Location: San Diego

- Identify opportunities to minimize touches
- Identify opportunities to streamline processes
- Optimize inventory by relying on rapid wholesale response (vice multiple layers of inventory)
- Identify alternative organizational structures (organic and/or contracted) to execute the streamlined process

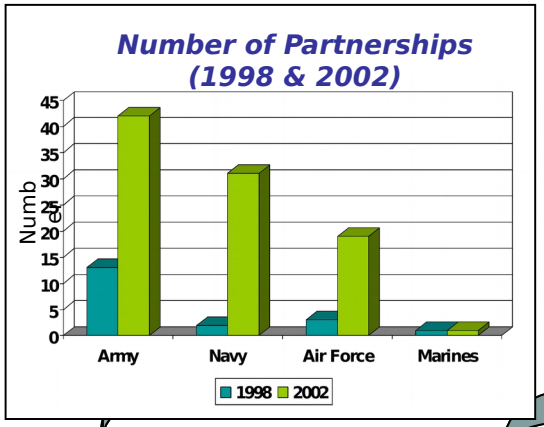
"Weapons System Service Provider"



- Use to provide weapons systems availability
- Metric: Mission capability, operating $/hour
- Transformation examples: Navy APU Cherry Point, JSTARs, C-17
- Leverage point: Have each PM design system's supply chain to optimize its flow given the significant inherent variations (e.g., submarine vs. radar)

Weapon System Sustainment Roadmap

- ✓PM accountable for life cycle
- ✓JROC established sustainment requirements
- ✓Enabling Depot legislation
- ✓Revised Maintenance Policy
- ✓Industry Supply Chains
- ✓Reengineered Training



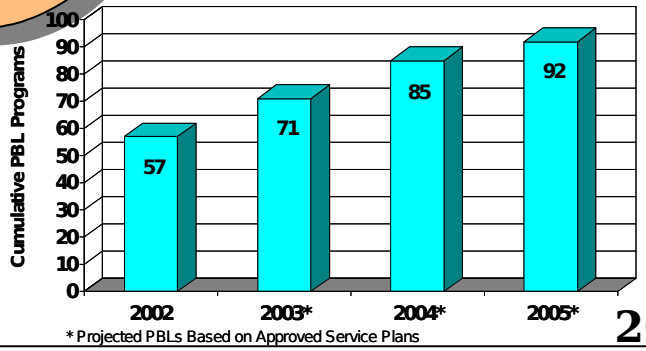
- Joint Strike Fighter
- Future Combat System
- Advanced Amphibious Assault

Historic

- Suppressed Readiness
- Marginal reliability
- Fractionated Accountability
- $67B/year
- Huge footprint

- **Warfighter-driven readiness**
- **Ultra-reliability**
- **Clear PM accountability**
- **Minimal Footprint**

PBL Implementations



* Projected PBLs Based on Approved Service Plans

- ✓Financial Reform (PR05)
- ✓Single-line Accounting
- ✓Life Cycle Cost Management
- Operational requirements synchronized with PPBS

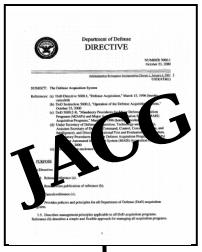
2000 **2005** **2015**

DoD Vision for Item Marking: UID

To implement a policy establishing a strategic imperative for uniquely identifying tangible items relying to the maximum extent practical on international standards and commercial item markings and while not imposing unique government data requirements.

Uniquely identified (UID) tangible items will facilitate item tracking in DoD business systems and provide reliable and accurate data for management, financial, accountability and asset management purposes.

Performance-Based Logistics



Reengineer Product Support

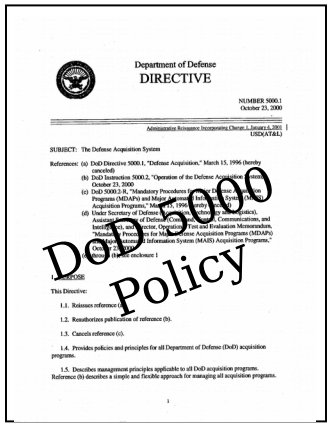
Oversight via R-TOC Forum

30 Pilot Programs

Operational Demonstrations

Lessons Learned

Adjustments



Oversight via DAB/DAES

New program implementation

Quadrennial Defense Review

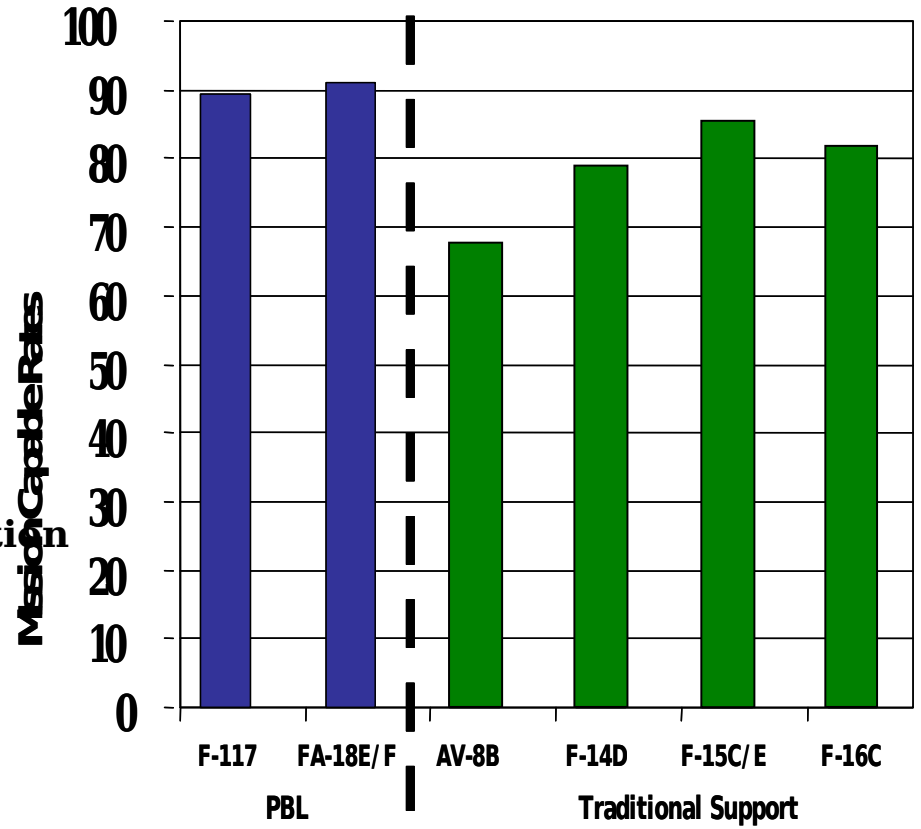
- **Performance-Based Logistics**
- **Legacy Systems**
- **FY03 DPG**
- **Service Implementation Schedules**

- **CY02/03 PEO/SYSCOM**
- **PM Roundtables**
- **AIA Product Support**
- **Industry/Government Tiger Team**

A joint, disciplined program to successfully implement

PBL Programs & Partnerships in Support of GWOT

PBL Performance



Deliveri ng Capabili ty NOW!

Why does the warfighter like PBL programs?

- F/A-18 SMS - Availability Was 65% ... Now 98%
- Tires - Availability Was 81% ... Now 98%
- ARC-210 Radio - Availability Was 70% ... Now 85%
- APU - Availability Was 65% ... Now 90%
- F-14 LANTIRN - Availability Was 73% ... Now 90%
- H-60 Avionics - Availability Was 71% ... Now 85%
- F/A-18 C/D - 67% Availability ... F/A-18 E/F FIRST - 85%

PBL WORKS!

- **Improves Readiness**
- **Lowers Total Ownership Costs**

PBL Vs. Organic Repair

PBL

- Parts Cost: $300,000
- Labor & Admin Costs: $34,000
- Total Cost: $334,000
- Average Life: 2,000 hours
- ***Cost per hour: $167***

Organic Repair

- Used Parts: $120,000
- Labor & Admin Costs: $34,000
- Total Cost: $154,000
- Average Life: 375 hours
- ***Cost per hour: $4***

Future System Sustainment

Real-Time System Status (CBM+)

Industry/Government

Partnerships

Performance-Based Logistics

Weapon System Manager

Force Provider

Performance Agreement

Performance Agreement

Ensure system is sustained at optimum level

Provide continuous, reliable, affordable support

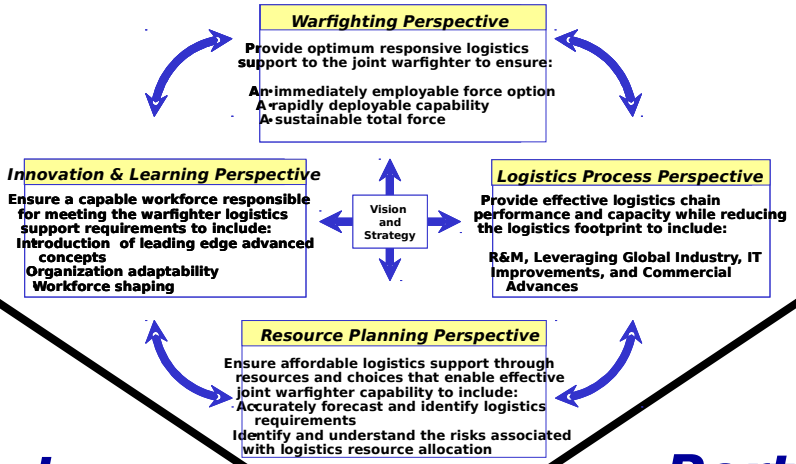
Acquisition ***Sustainment*** ***Disposal***

Visibility into cost/risk decisions across life cycle

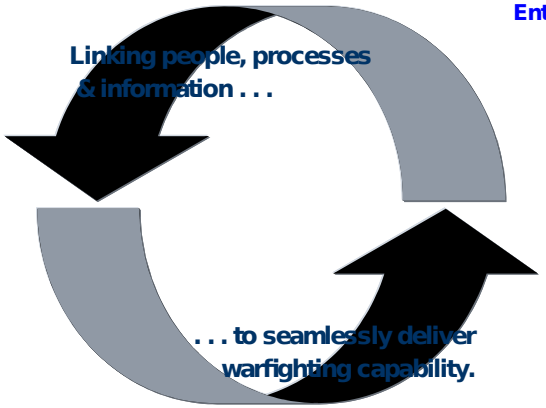
Providing operational availability; not parts.

Enterprise Integration

Logistics Balanced Scorecard Synchronized to DoD BSC


Warfighting Perspective
Provide optimum responsive logistics support to the joint warfighter to ensure:
An immediately employable force option
A rapidly deployable capability
A sustainable total force
Innovation & Learning Perspective
Ensure a capable workforce responsible for meeting the warfighter logistics support requirements to include:
Introduction of leading edge advanced concepts
Organization adaptability
Workforce shaping
Vision and Strategy
Logistics Process Perspective
Provide effective logistics chain performance and capacity while reducing the logistics footprint to include:
R&M, Leveraging Global Industry, IT Improvements, and Commercial Advances
Resource Planning Perspective
Ensure affordable logistics support through resources and choices that enable effective joint warfighter capability to include:
Accurately forecast and identify logistics requirements
Identify and understand the risks associated with logistics resource allocation

Enterprise Architecture



Enterprise Integration End State:

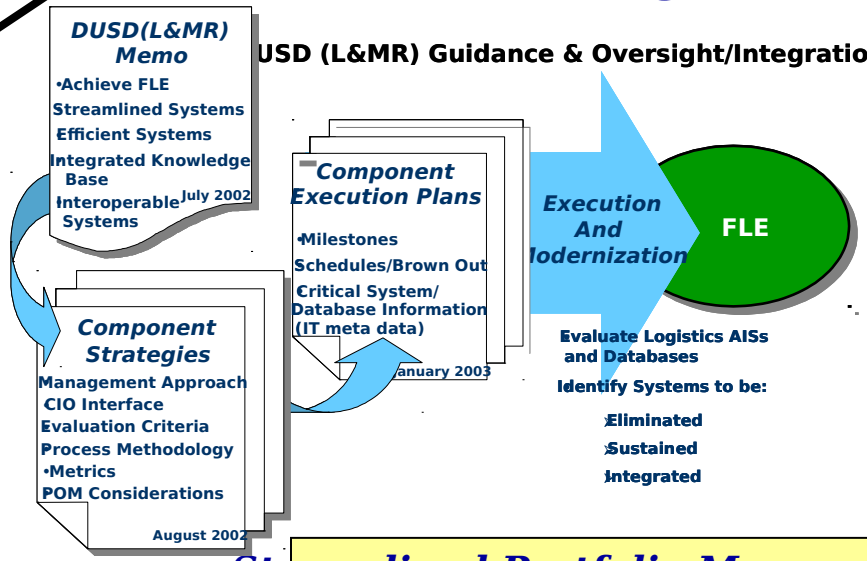
Highly trained and skilled people within the DoD Logistics Enterprise have access to near real time, actionable information

…provided by modern, commercially-based software products

…that have been rapidly implemented to enable reengineered logistics processes and business rules

Leading DoD Enterprise Integration

Portfolio Management

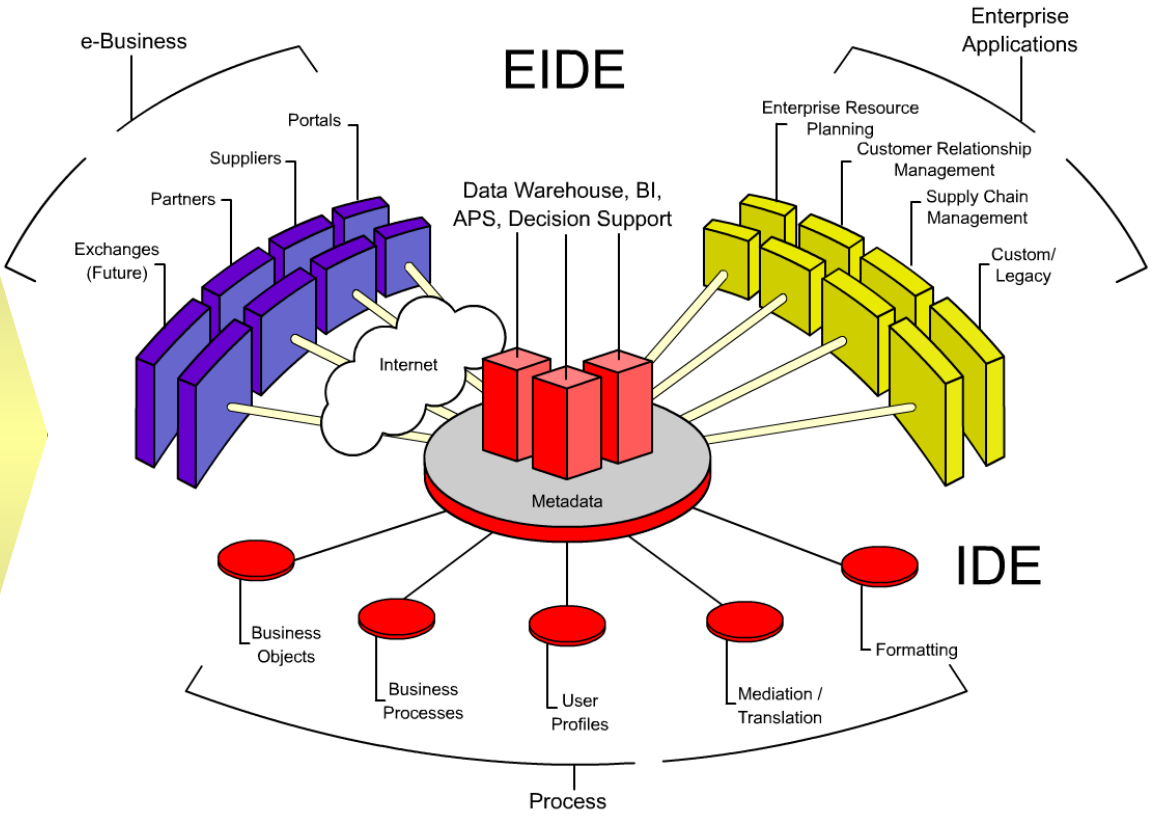


Streamlined Portfolio Managem

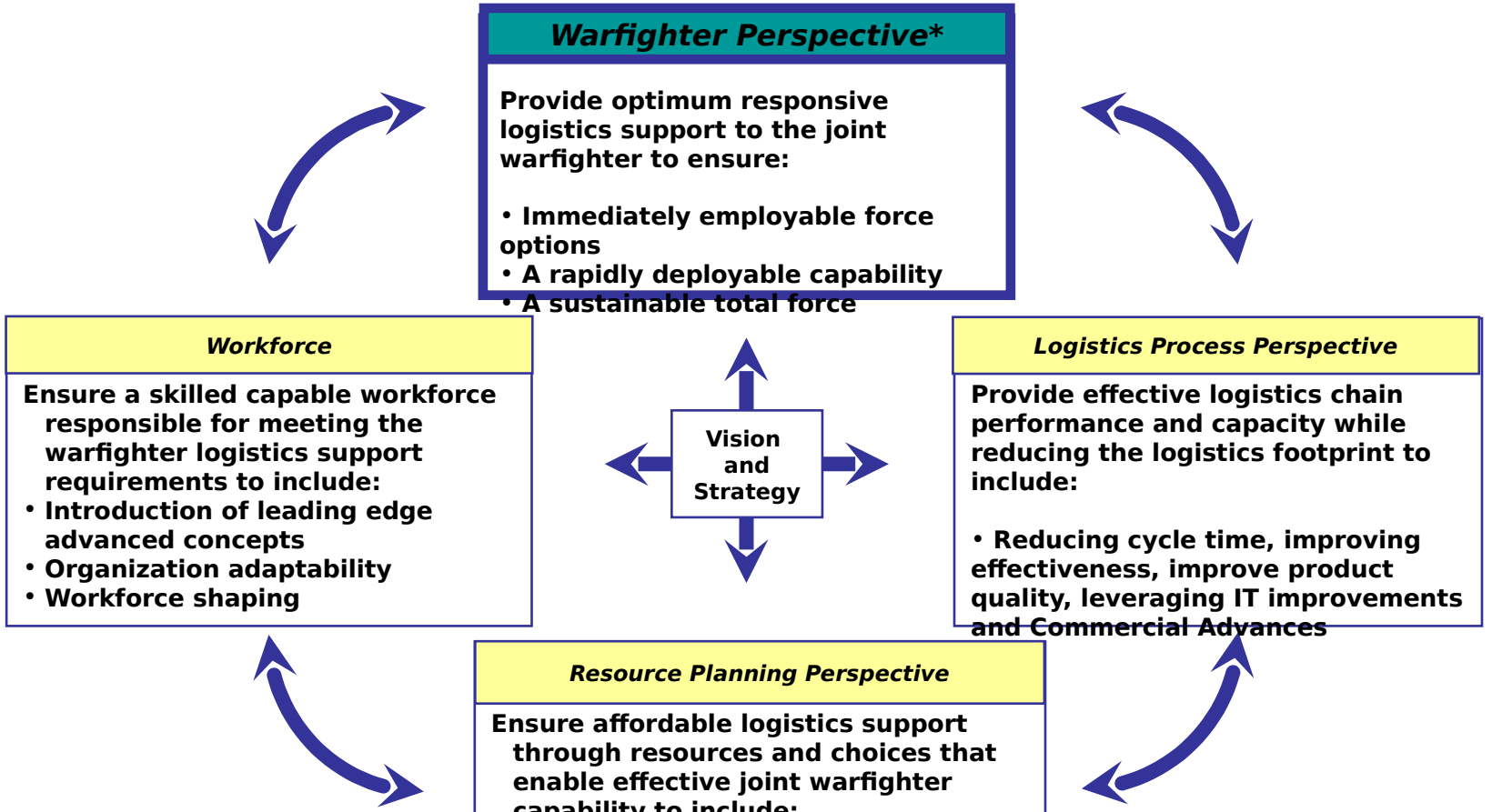
Enterprise Integrated Data Environment (EIDE)

Provide an enhanced environment that enables the DoD Logistics Enterprise to execute practices, processes, applications and decision support tools to achieve logistics interoperability and allow for information exchange within and between internal and external DoD business partners.

- **Non-system dependent transactions**
- **Consolidation and reuse of Interfaces**
- **Data integration/sharing**



DoD Logistics Strategic Objectives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Ensure a skilled capable workforce responsible for meeting the warfighter logistics support requirements to include:
• Introduction of leading edge advanced concepts
• Organization adaptability
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Vision and Strategy
Logistics Process Perspective
Provide effective logistics chain performance and capacity while reducing the logistics footprint to include:
• Reducing cycle time, improving effectiveness, improve product quality, leveraging IT improvements and Commercial Advances
Resource Planning Perspective
Ensure affordable logistics support through resources and choices that enable effective joint warfighter capability to include:
• Accurately forecast and identify logistics requirements
• Identify and understand the risks associated with logistics resource allocation
• Improved cost predictability and constrained cost growth.

JLB Approved Aug 03

Logistics Transformation

Mass-Based

- More is better
- Mountains of stuff measured in days of supply
- Uses massive inventory to hedge against uncertainty in demand and supply
- Mass begets mass and slows everything down

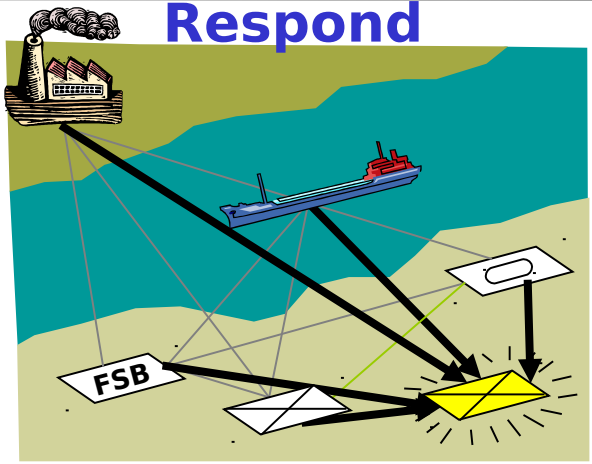
rime Metric: Days of supply

Just-in-Time

- Precision is better
- Reduce Inventory to a minimum and keep moving
- Use precise demand prediction and optimization to reduce uncertainty
- Works great, except when it doesn't

Prime Metric: Flow Time

Sense and Respond



- Agile is better
- Dynamically positioned Inventory throughout
- Use transportation flexibility and robust IT to handle uncertainty
- Supports adaptive operations

Prime Metric: Effects

Migrating to the Force-centric Logistics Enterprise

The End Game

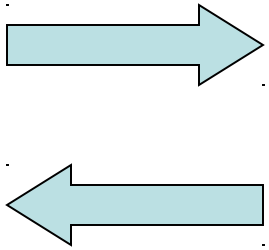
Ubiquitous, cost-effective capability to project and sustain power.

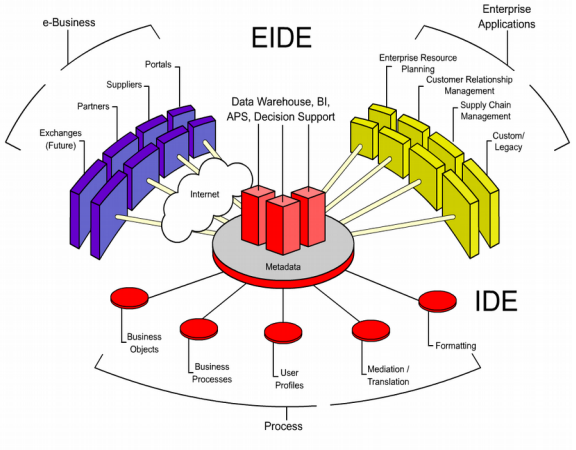
Backup/unused slides

Single Point of Entry (SPOE)

- A common way to exchange information with the Logistics Domain from modern weapons platforms and it's suppliers via an Integrated Data Environment (IDE) at the process level not th

ALIS - OEM



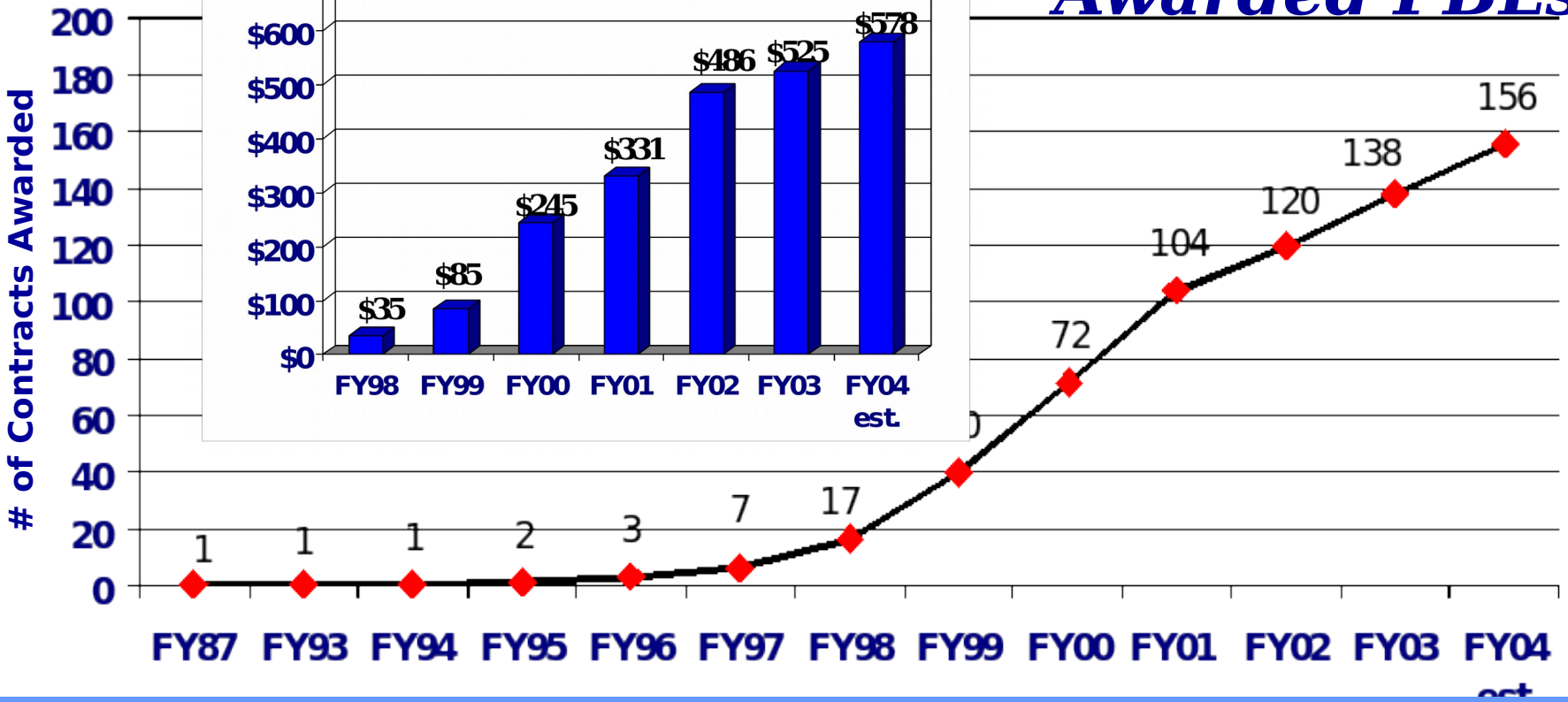


NAVSUP
NAVAL SUPPLY SYSTEMS COMMAND

Where NAVICP Is Today

42K Items, 12% of total obs Covered

Awarded PBLs



Reengineering Tool to Improve Readiness/Sustainmen

F/A-18 E/F USN/Industry Partnership

- Industry/Gov't distribution
- Seamless support to warfighter
- Web-based asset visibility

Leverage commercial and DoD best practices

- Deployed 6 months early to meet OEF/OIF requirements
- 99% Range and Depth of Spares Deployed to OIF
- 70%-89% of demands met in 48 hours
- 97.1% successful launch rate